



Electronic Parts and Components

Press Release for the Business Press

February 15, 2006

Annual General Meeting 2006

- ▶ **Fiscal 2005 in review:**
 - **Sales decline and high one-time charges against earnings**
- ▶ **Outlook fiscal 2006:**
 - **Largest loss-maker eliminated**
 - **Return to sales growth and positive EBIT in continuing operations**
- ▶ **Medium-term perspectives:**
 - **Catalog of measures for sustained profitable growth**

Fiscal 2005 (October 1, 2004 to September 30, 2005)

Fiscal 2005 was a difficult year that confronted EPCOS with great challenges. The economic upturn in the previous fiscal year proved short-lived, and the company was unable to carry the positive business development experienced in 2004 over into 2005. In the first half of fiscal 2005, customers' inventory adjustments placed a heavy burden on business development. Business stabilized more and more in the second half of fiscal 2005, and even revived vigorously toward the end of the fiscal year. EPCOS was able to further increase the sales of its new products such as piezo actuators and multilayer ceramic modules. Nevertheless, these gains were not able to compensate for the weak first half of fiscal 2005. Thus, sales declined by 9% from EUR 1.36 billion in the previous year to EUR 1.24 billion in the year under review.

EBIT was minus EUR 88 million (plus EUR 65 million in fiscal 2004). The main reasons for the drop in earnings were the decline in sales and a number of one-time special charges, which totaled EUR 69 million. Moreover, a valuation allowance for deferred tax assets resulting from net operating loss carryforwards from recent years negatively affected earnings after taxes by minus EUR 25 million. The net income thus came to minus EUR 119 million (plus EUR 49 million in the previous year). Earnings per share were minus EUR 1.83 against plus EUR 0.75 in the previous year. The net cash flow for the year



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amounted to minus EUR 65 million. This resulted mainly from the loss and capital expenditures to ramp-up production capacities for new products.

Progress since October 2004

Despite the difficult business development EPCOS has made progress toward becoming a globally more competitive company:

The tantalum capacitor business was sold to the US capacitor manufacturer KEMET. EPCOS has thus eliminated the company's biggest source of losses and improved the conditions for sustainable positive earnings. Closing of the transfer of the business to KEMET is expected in early 2006.

As was successfully accomplished with Ferrites in the past, EPCOS is now focusing more strongly on specific market segments in the Ceramics Capacitors business. The portfolio of these products has been streamlined accordingly and aligned especially for automotive electronics applications. "This shift of focus is a measure that will lay the foundation for sustained medium-term profitability," explained President and CEO Gerhard Pegam at EPCOS' Annual General Meeting in Munich today. "But this strategy only applies to a few areas of our overall portfolio – areas in which we will probably not be able to achieve global market leadership, but where we want to preserve the basic technology. As a whole, EPCOS remains committed to manufacturing a very broad spectrum of standard and special-purpose products and solutions."

Within the framework of the corporate-wide COMPETE program EPCOS has reduced its costs in fiscal 2005 by an additional EUR 110 million, meaning that since 2002 a total of about EUR 600 million has been saved (COMPETE: **CO**st **M**anagement, **P**rocess **E**xcellence, **T**ime **E**fficiency)

At the same time, EPCOS intensified its work on innovation projects designed to lay the basis for successful business in future. Sales of new products rose by over 40% in the period under review. Products that have been on the market for less than three years now account for about one-third of total sales. The contribution made by new products is to be increased even further. With current innovation projects EPCOS will develop additional sales potential worth well over half a billion euros in the years ahead.

EPCOS has further expanded its presence in Asia, the fastest growing regional electronics market. For example, the SAW filter business for multimedia applications was completely



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concentrated in Singapore. Moreover, EPCOS established two more joint ventures in China. The joint venture with Chinese conglomerate XINDECO will manufacture aluminum electrolytic capacitors, primarily for use in industrial electronics. In collaboration with BEIJING JONES, a Chinese manufacturer of EMC components, EPCOS will produce and market EMC filters, which ensure the electromagnetic compatibility (EMC) of electronic equipment and systems. With these joint ventures EPCOS will open the door to new Chinese customers and increase its value added in Asia. Moreover, this creates an additional low-cost production base in Asia from which the global market can be served later.

Measures for sustained profitable growth

Since 2001 the economic conditions prevalent in the passive electronic components market have in some cases changed dramatically and worldwide competition has become increasingly fiercer. "Globalization has hit EPCOS – a company rooted in a high-cost region – very hard indeed," said Gerhard Pegam. "That is why we are called on to adapt, to change quickly, comprehensively and continuously." At the top of EPCOS' agenda in 2006 is a catalog of measures whose purpose is to quickly return the company to sustained profitable growth.

In 2006

The absolute top priority in the short term is the improvement of the earnings situation. This includes a rapid and successful transfer of the tantalum business to KEMET and the elimination of the current process problems at Ceramic Components. Within the framework of the COMPETE program EPCOS will continue to cut costs and improve the quality of all production processes, products and services. Moreover, EPCOS will increase the efficiency of research and development activities, thus strengthening the company's innovativeness. Sales of new products – such as piezo actuators, multilayer ceramic modules and further miniaturized surface acoustic wave filters – will grow over-proportionately.

Taking all these considerations together, EPCOS confirms its forecast that continuing operations – i.e. excluding tantalum capacitors – will return to sales growth, positive EBIT and a significantly positive net cash flow in this fiscal year.



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Medium term

In order to master the challenges of globalized competition in the long term, and to attain a leading position on the global market, EPCOS will increasingly require externally-supported growth as well.

In the coming years EPCOS will be looking for partners – preferably with their home base in Asia – to help anchor the company more firmly in this growth region. Such reinforcement can be accomplished in the form of reverse integration, cooperation, joint ventures, acquisitions or mergers. In particular, EPCOS will focus on partnerships in the following technology and product areas: ceramic standard components, inductors and electrolytic capacitors. Moreover, EPCOS will intensify its efforts to identify new fields of activity to add to the existing technology portfolio.

Appropriation of net income

The agenda of the Annual General Meeting proposes that the unappropriated net income of EPCOS AG amounting to EUR 49 million be carried forward.

About EPCOS

EPCOS AG, a manufacturer of passive electronic components headquartered in Munich, is market leader in Europe and number two worldwide. EPCOS offers a comprehensive portfolio of about 40,000 different products. The EPCOS Group has design, manufacturing and marketing facilities in Europe, the Americas and Asia.

Passive electronic components are found in every electrical and electronic product – from automotive and industrial electronics through information and communications to consumer electronics. Components from EPCOS store electrical energy, select frequencies, and protect against overvoltage and overcurrent.

In fiscal 2005 (October 1, 2004, to September 30, 2005), EPCOS posted sales of EUR 1.24 billion. At September 30, 2005, the company employed about 16,100 people worldwide.



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N.B. All financial data has been compiled to US GAAP and is not audited except for data at September 30, 2005.

Further dates

Results for the second quarter of fiscal 2006 will be published on May 4, 2006.

This document may contain forward-looking statements with respect to EPCOS' financial condition, results of operations, business, strategy and plans. In particular, statements using the words "expects", "anticipates" and similar expressions, and statements with regard to management goals and objectives, expected or targeted revenue and expense data, or trends in results of operations or margins are forward-looking in nature. Such statements are based on a number of assumptions that could ultimately prove inaccurate, and are subject to a number of risk factors, including changes in our customers' industries, slower growth in significant markets, changes in our relationships with our principal shareholders, the ability to realize cost reductions and operating efficiencies without unduly disrupting business operations, currency fluctuations, unforeseen environmental obligations, and general economic and business conditions. EPCOS does not assume any obligation to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Further information on factors which could affect the Company's financial results is provided in documents filed with the *Bundesanstalt für Finanzdienstleistungsaufsicht* and the *US Securities and Exchange Commission*.